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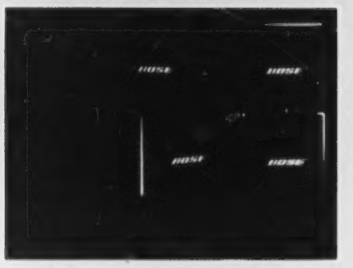
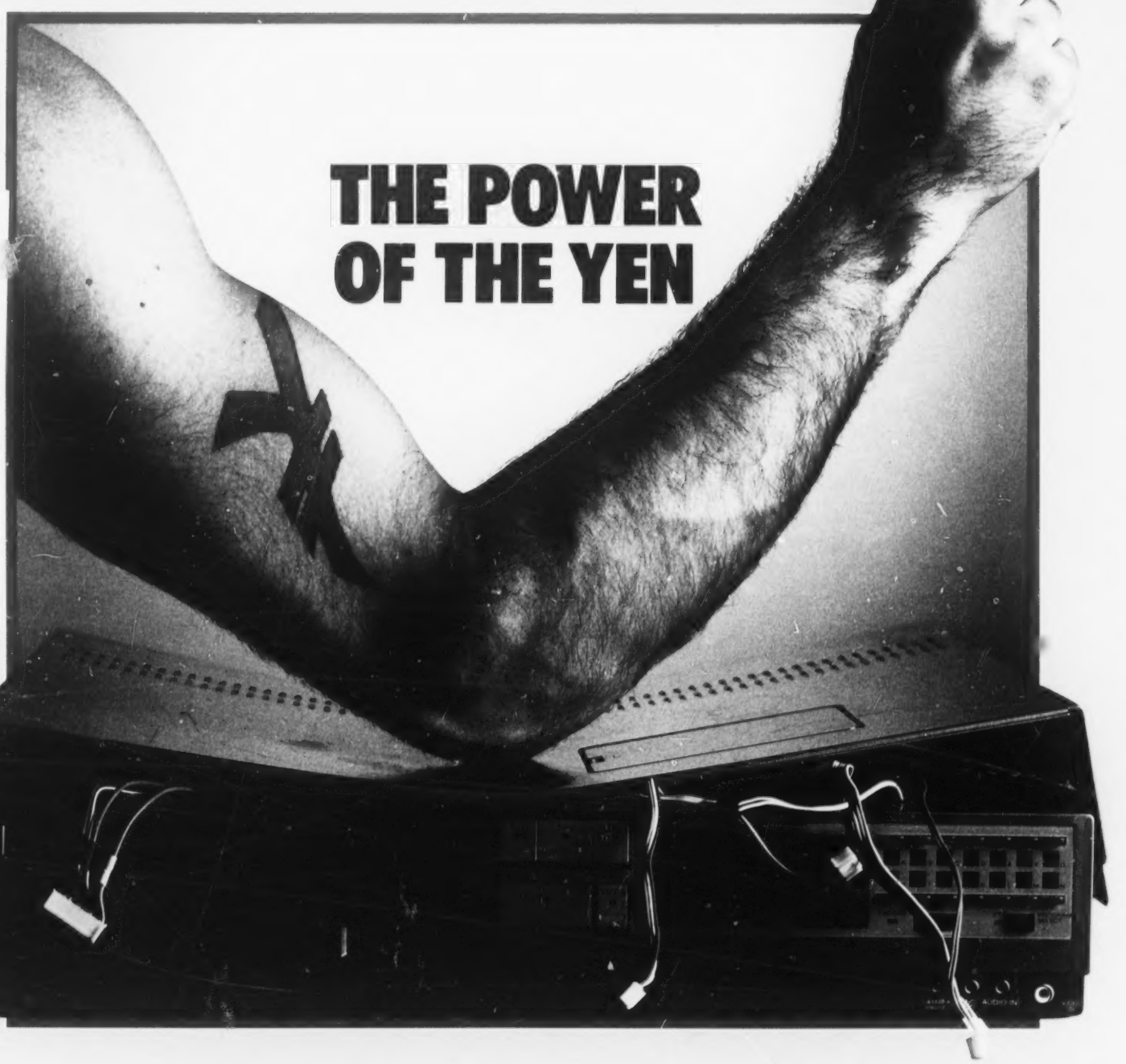
APRIL 1987



SPECIAL ISSUE: THE 1987 PRODUCT SELL-THRU GUIDE



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Business Ideas for Today's Retailers and Distributors

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BPA
ABP

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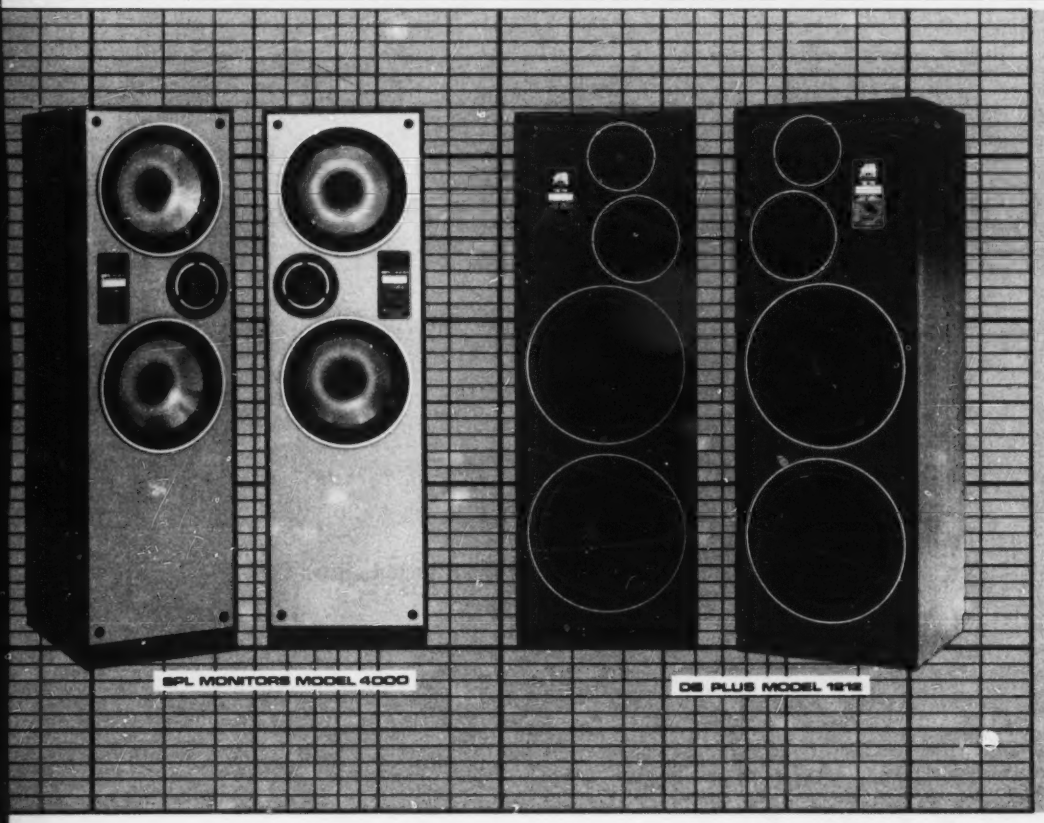

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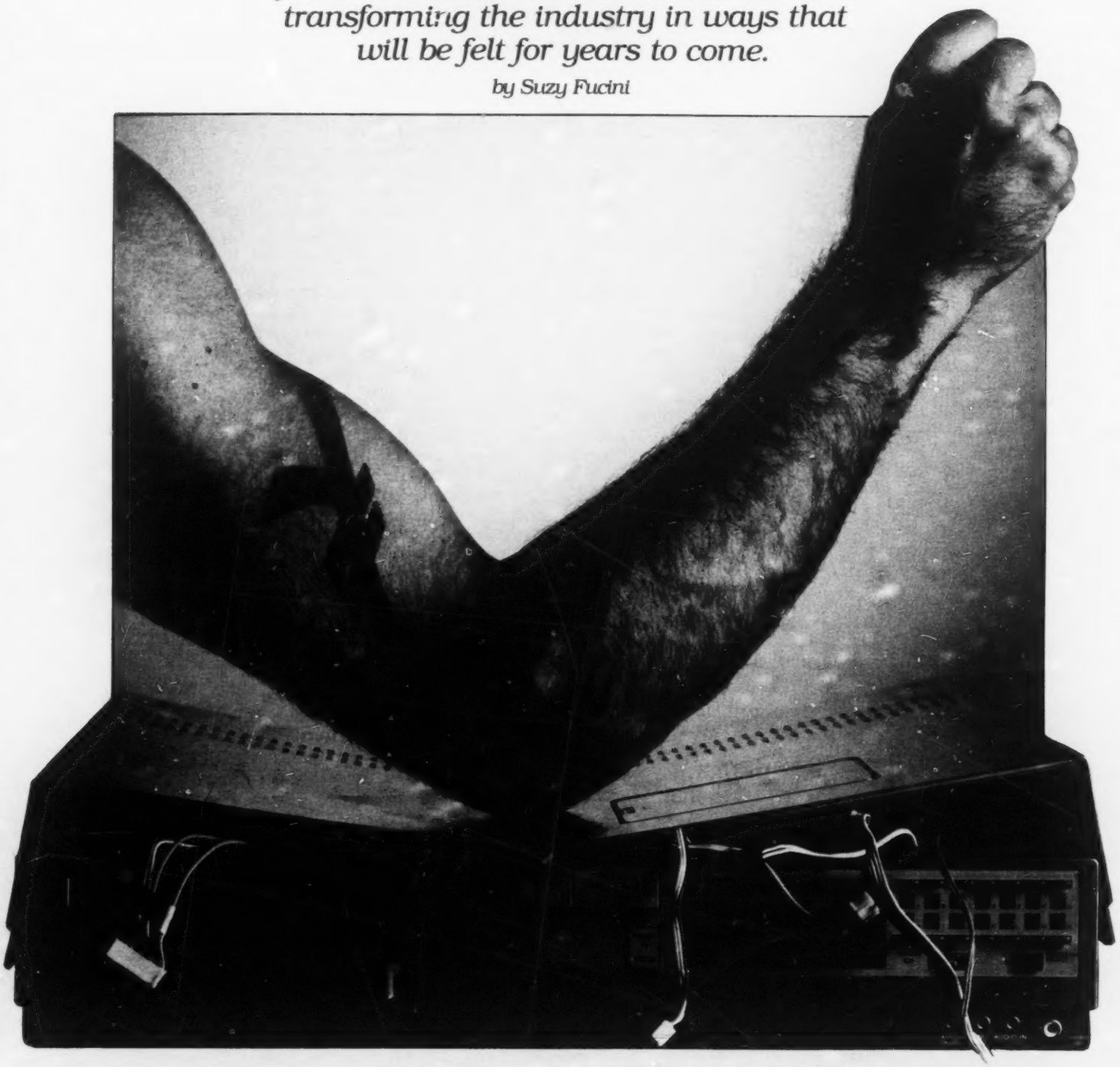
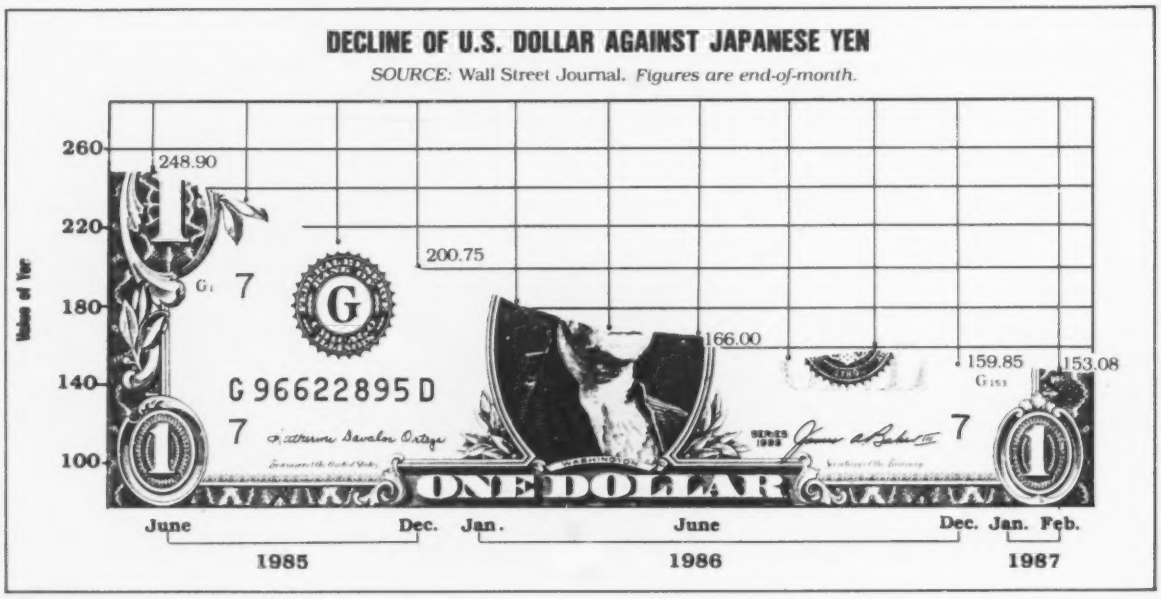
The Power of The Yen

Since the yen began climbing more than a year ago, little effect has been felt at retail. But behind the scenes, it is transforming the industry in ways that will be felt for years to come.

by Suzy Fucini





When six nations signed a currency-stabilization agreement in Paris on February 22 this year, the Japanese business community breathed a sigh of relief. This, they believed, would finally put a halt to what has become known as the "monster yen."

Since June 1985, when a U.S. dollar was worth 250 yen, Japanese currency has rampaged out of control, its value appreciating 40 percent relative to U.S. currency. As the yen muscled its way upward to the 150-per-dollar mark, it left a trail of misery in its wake. Many Japanese export manufacturers, suffering huge currency exchange losses, have curtailed production, or moved operations to facilities in Southeast Asia and other parts of the world where labor costs are cheaper. This has sent Japan's unemployment rate climbing to an unheard-of three percent.

Thus far, however, the cutbacks and relocations have failed to ease the profit squeeze caused by the yen's rise. According to some analysts, major Japanese exporters of goods such as automobiles and electronics will see their profits plunge by an average of more than 60 percent for the fiscal year ending March 31.

In the weeks since the Paris accord, the currency exchange rate appears to have stabilized in the 150 to 153 yen/dollar range. But whether this is a true sign that the dollar has bottomed out, or just a brief respite in the eye of the storm, many executives at both Japanese and U.S. electronics firms agree that irreparable damage has been done to the industry.

"It's like losing your leg in a war," summed up Mark Friedman, senior vice president of sales and marketing at Onkyo. "The leg is gone, but at least now your can apply a tourniquet and try to stop the bleeding. If the yen had kept rising, some companies would have bled to death."

That the consumer electronics industry is "bleeding" is no secret to anyone. A look at the balance sheets of some major players reveals a frightening picture. Although sales records were set last year across the board in units sold, lack of profitability plagued the industry like a disease, with many leading manufacturers suffering net losses. Zenith reported a loss of $10 million in 1986, although its sales rose 16.5 percent to $1.9 billion. The GE/RCA brands together accounted for a 25 percent market share in VCRs and TVs, but they too finished in the red. North American Philips' consumer electronics business lost $12.7 million in 1985, and will show a loss again this year. Sony's U.S. sales were up 20 percent, however, according to manager of corporate communications Koh Shimizu, the company's worldwide net profits declined by more than 40 percent.

Citing statistics such as these, outgoing executive vice president of Hitachi Sales Corp. Bob O'Neil, in a farewell speech to the industry, warned electronics executives that the current situation is "a disaster waiting to happen."

Clearly, the yen is not the only — nor the biggest — factor in this profitability crisis. Worldwide, production capacity of consumer electronics goods has outstripped demand, resulting in an oversupply of product that's placing extreme downward pressure on prices. At GE/RCA, spokesman Frank McCann attributed his company's 1986 loss to "the difficult business conditions that we and everybody else had last year due to the high level of competition." Other manufacturers put it more bluntly. Said Zenith spokesman John Taylor, "The Koreans and Taiwanese are the biggest culprits — for pulling prices down for the entire industry, and for their concentrated dumping efforts in this country."

Still, with Japanese-made goods dominating the market to such a large degree, the yen's effect on an already squeezed industry is potentially devastating. According to government import figures, Japan shipped $10.3 billion in consumer electronics to the U.S. in 1986. That's no small drop in the bucket for a business whose total (foreign and domestic) factory-to-dealer shipments are in the $30 billion range.

Observers note that companies on shaky ground with sales may soon be dealt the final death blow by currency exchange losses. Said one high-ranking industry member, "Some firms will definitely go under, merge or be taken over. Akai may be one, and the financial difficulties of Sansui are also very well known. If a company is relatively stable in market position, it (the strong yen) is a terrible thing for them, but I think they can survive. If a company has poor business combined with the yen, they probably won't make it."

The crunch is occurring, of course, because Japanese manufacturers, fearful of losing market share, have been reluctant to raise prices. They have opted instead to absorb currency exchange losses, compensating as much as possible by trimming production costs. So far, price increases in most product categories have been so slight — or non-existent — that some distributors and retailers are barely aware of the dramatic upheaval that has occurred in the yen-dollar relationship (see sidebar).

"Japanese manufacturers don't want the public to get the impression that their goods are higher priced," said David Seifert, senior vice president at B.A. Parge, a Nashville distributor. "We haven't seen any price changes since the CES show, and even there, there weren't as many changes as I expected. The major effect we've felt is a general tightening up of inventories from Japanese manufacturers."

Cutting back production of low-end goods, where margins are slimmest, is one technique being used by Japanese manufacturers to restore profitability. Where price increases have occurred, they have come mainly in the audio category, where competition is less intense than in, say, the glutted VCR market. Toshiba tried a three percent increase on VCRs a year ago, but rescinded it when U.S. wholesalers rebelled. "We cannot afford to raise prices in categories where competition is too difficult," admitted Shimizu of Sony, noting that his company's biggest increases have come in the Walkman line, which has gone up about 20 percent at retail.

The main focus of suppliers continues to be not in the area of pricing, but in cost-cutting, both on the assembly line and off. Companies are scrambling to find more efficient ways of producing goods, and trimming fat out of their operations by reducing budgets in areas such as advertising and travel. Shimizu reported that Sony has made a "major breakthrough" in the Walkman manufacturing process, allowing fewer components and substantial savings. At Onkyo's Japanese facility, said Friedman, belt-tightening has been carried to such an extreme that "it is now mandatory to turn off the lights and air conditioning during lunch hour. And after five o'clock, the air conditioning gets shut off, regardless of who has to work overtime."

"It's like losing your leg in a war. The leg is gone, but at least now you can apply a tourniquet and try to stop the bleeding."

Mark Friedman
Onkyo

The ultimate form of cost-cutting — and one that many analysts believe holds the long-term solution to the problem of the strong yen — is to move production offshore to nations where labor and other overhead expenses are cheaper. Japan's push abroad is accelerating rapidly. According to Japan's Ministry of Finance, total Japanese direct investment overseas (in all industries) soared to $14.5 billion in 1986, more than double the $6.5 billion in 1985. Significantly, last year marked the first time in 11 years that Japanese electronics production showed a decline, dipping by 0.2 percent to $112.5 billion. What we are witnessing, some say, is the beginning of the de-industrialization of Japan.

The list of Japanese electronics manufacturers announcing plans to build or expand production facilities in Southeast Asia, Europe and the U.S. reads like an industry Who's Who — TDK, Sanyo, Pioneer, Toshiba, NEC, Sony, Clarion, Matsushita, Sharp, Hitachi. A number of companies have gone so far as to discontinue all exports from Japan in certain product categories. Sanyo and Matsushita, for example, are no longer selling Japanese-produced color TVs overseas.

"We're making just about 100 percent of our portable TVs in the U.S.," said Ralph Wolfe, senior vice president of sales and marketing at Panasonic. "And we've moving a lot of portable audio production to Singapore, Malaysia and Taiwan. But there are some

things that you just can't move out of Japan — high-fidelity equipment, for instance. In this category, there is a tremendous need for particularly high-quality production, and the facilities are there in Japan."

As the yen has risen, some Japanese manufacturers have established specific goals for boosting overseas output by a given percentage. Matsushita, which currently makes 14 percent of its products outside Japan, plans to increase this to 25 percent. Sony's current offshore production is running about 20 percent, but this figure will jump to 35 percent "within a few years," according to Shimizu. In both cases, the U.S. will be a beneficiary. Matsushita is building two manufacturing plants here, each valued at $20 million — a Vancouver, Washington color TV facility and an Atlanta car-audio facility. Sony plans to expand production at its San Diego color TV plant from 850,000 units to one million units annually, and at its Terre Haute, Indiana compact disc factory from 2.5 million to 4 million units a month.

"We have not raised our prices at all, whereas some of our Japanese competitors have. As a result, we have gathered and held a considerable amount of new distribution this year."

Irwin Zucker
Sherwood

Japanese firms, however, aren't the only ones eyeballing the economies of manufacturing in the U.S. GE/RCA recently severed its supplier-agreement with Matsushita for color TVs, after refusing to accept the Japanese company's yen-related price hikes. The company has now announced that it will move production of the sets to its Bloomington, Indiana RCA plant. Whether the currency revaluation will result in other U.S. manufacturers resuming domestic production, no one is speculating. But one thing is clear: Japanese electronics makers will be building more goods here in the years to come — even if the yen-dollar relationship has, in fact, stabilized.

"The Paris pact gives Japanese companies more reason to invest in the U.S.," said Ayako Weissman, an analyst at Smith Barney, Harris Upham & Co. "There's less of a currency risk for them to come over here and spend money, since the dollar is less likely to weaken."

As Japanese manufacturers seek ways to recover their currency losses, they must also worry about losing market share to competitors in nations like Korea and Malaysia, where production costs have remained low. Many industry members believe that the Koreans, whose currency — the won — is pegged to the dollar and has not fluc-

Retailers divided on impact of strong yen

How seriously has the yen-dollar situation affected the industry at retail? Have dealers encountered significant price increases or had any difficulty obtaining Japanese-made goods? If so, which product categories are posing the greatest problems, and what countermeasures are being taken?

MART put these questions to executives at retail chains of different sizes across the U.S. Here is a sampling of their responses:

● **Luskin's,** *Baltimore, MD, 54 stores*

Buyer Mike Hamerling noted that while there have been some price increases of "less than 10 percent" in the audio end, "the main problem is that low-end merchandise isn't available like it used to be." Around last November is when the supply of low-end receivers, tape decks and turntables began drying up, reported Hamerling, and since then, Luskin's has been "scrambling around, looking for alternatives." One new supplier being used by the chain is the Korean-produced Sherwood, which, he said, "gives us more value per dollar."

Company president Jack Luskin added that several months ago he was warned by Japanese VCR sources that price hikes were about to go into effect and that he'd better "lay in a lot of merchanidise." However, Luskin said, "The exact opposite happened — VCR prices went down. Besides, we don't operate under scare tactics here — we operate in a very disciplined environment."

● **Federated Group,** *Commerce City, CA, 70 stores*

Vice president of purchasing Marty Jacobs has seen "just about everybody" try to raise prices in recent months, but in almost all cases these increases "haven't hung together like they (suppliers) wanted them to." Most of the price hikes have been rescinded, with a few exceptions (notably, portable radios). But, overall, Federated isn't feeling much impact from the dollar's decline. Summed up Jacobs: "Sales are slow and manufacturers have to move merchandise, regardless of what the yen is."

● **Newmark & Lewis,** *Hicksville, NY, 44 stores*

While asserting that lack of profitability is a serious industry problem, president Dick Lewis said that the yen is not yet a factor in this dilemma at the retail level. "Regardless of what you think the (rising) yen should be doing, it keeps working to the reverse — prices keep coming down." The reason for this, and for the profitability crunch in general, said Lewis, is that manufacturers are too eager to convert their glut of inventory into cash at any cost. "They have ignominiously decided that any source of distribution is okay . . . and woe be you, if you want to sell at a profit."

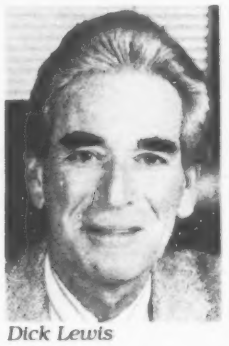
Nevertheless, Newmark & Lewis enjoyed the most profitable year in its history in 1986, according to Lewis. A proponent of increasing margins by "selling up" the consumer, he attributed his successful year, in part, to his company's practices of "continually training our people to move off advertised price leaders, and developing floorplans to present the customer with the most full-feature products."

● **Westchester TV, Video, Audio,** *Bakersfield, CA, 2 stores*

Independent dealer Bill Tanner reported that over the past 90 days, Sony, his principal audio supplier, increased prices about 10 percent on selected products, namely receivers and tape players. Tanner who responded by raising his retail prices accordingly, said that there has been no consumer resistance "up to this point."

But what's causing the California dealer greater concern is a form of belt-tightening currently being engaged in by several profit-starved manufacturers. "They're cutting back on co-op dollars," he lamented, "and this is putting a real squeeze on retailers. Something's going to have to give pretty soon, or they're going to find that the numbers being sold nationwide are going to decline."

Alan Lenzmeir


Dick Lewis

Jack Luskin

● **Best Buy,** *Minneapolis, MN, 24 stores*

According to Allan Lenzmeir, the chain's senior vice president and chief financial officer, prices on Japanese audio equipment purchased by his company in the under-$200 range have risen 15-20 percent, while goods in the over-$200 category have increased 5-10 percent. Furthermore, since January, product under $200 has been much harder to come by.

"From what we've gathered, manufacture of low-end merchandise is getting moved offshore to places like Singapore, where the facilities aren't equipped for the volume, and this is why certain items are scarcer." The situation, however, has not yet caused any revamping of Best Buy's buying and merchandising strategies. "We're not terribly concerned, because we feel that from the consumer's standpoint, there's still room to move up (in price) without any adverse effect on buying."

● **Tops Appliance City,** *Edison, NJ, 2 stores*

Carrying an extremely wide assortment of product brands — "You name it," declared merchandise and video manager Andy Sliwoski — this two-store heavy hitter apparently hasn't felt any hardships as a result of the strong yen. "Prices are still going down on many items, and I'm very well stocked at the low end," Sliwoski reported. Nor does the merchandise manager anticipate any problems down the road. "We didn't see any increases the last time they were complaining about this problem (the rising yen). There wasn't much of an effect at the retail level, because the distributors absorbed most of the increases."

● A buying executive at a midwestern appliance/electronics chain, who requested anonymity, described the current price-availability climate as "very uncertain," with rapid price changes occurring in both the audio and video ends. "About six months ago prices were going up across the board, but now video is coming back down because of the market glut. We're also seeing some lack of availability in turntables and receivers from Japanese companies."

As a result, he said, his company is "switching suppliers faster than before." "It's become a matter of day-to-day buying — seeing what's available and at what price. We're buying short now, and I think everybody else is too. No one wants to lock into a supplier, because the situation's changing from moment to moment." □

tuated upward with the yen, will emerge the real winners (see chart). "There's no question that this tremendous up-valuation of the yen has worked to the advantage of the Koreans," said Allan Schlosser, vice president of communications for EIA's Consumer Electronics Group.

At Sherwood of Cerritos, California, which is owned by the Korean-based Inkel Corp. and whose products are all manufactured in Korea, director of marketing Irwin Zucker acknowledged that his company has reaped benefits. "We have not raised our prices at all, whereas some of our Japanese competitors have. As a result, we have gathered and held a considerable amount of new distribution this year." But the yen's rise is double-edged, Zucker added. "We depend a lot on Japan for raw materials and component parts, and we've seen some prices go up and lead times move out."

In the long run, the impact of the yen's rise may not stop with individual companies and nations, but could have ramifications on the future of the entire electronics industry. If the current belt-tightening mentality continues, for example, what will happen to research and development in an industry that depends on technological advances to create locomotive products like VCRs and CD players?

Wolfe of Panasonic, for one, isn't too concerned. "All of the major companies will maintain R&D, because they know that to cut that out would be to cut off the future," he stated.

Friedman of Onkyo isn't worried, either. "Most of the research that's needed to fuel the industry for the next 15 or 20 years has been done already. The next important thing is the digitalization of electronics — everything in both audio and video will be digital. And all that research is already in place."

Friedman, along with several other industry members, believes that some good might eventually come out of the yen situation, as the squeeze forces manufacturers to re-evaluate their profit and pricing policies. "It seems to me that, in general, Japanese companies tend to alternate between cycles of market share and cycles of profitability. Right now, we're moving into a cycle of profitability, and for once everyone's moving into it at the same time because of this yen thing.

"What will happen is that prices will rise, but dealers shouldn't be concerned," Friedman continued. "My feeling is that we aren't going to lose one bit of sales. All that will happen is that the dealer will sell at a higher price, his net profit will be higher, and in the long run, the whole thing could be very helpful." □

Editorial Feedback
Please circle the appropriate number on the Retailer Service Card. To this date, have you been affected in your retail operation by the strong yen?

YES—270 *NO—271*

Poised for profit . . .

Below are the top overseas suppliers of consumer electronics to the U.S. market for 1985 and 1986. Japan clearly dominates the list, but the countries lined up behind it are those which stand to gain the most from the strong yen.

1985

Japan	89.4 billion
Korea	1.2 billion
Taiwan	1.0 billion
Mexico	846 million
Singapore	505 million
Hong Kong	500 million
Canada	239 million
Malaysia	127 million
W. Germany	106 million
Brazil	99 million

1986

Japan	$10.3 billion
Korea	1.5 billion
Taiwan	1.1 billion
Mexico	901 million
Hong Kong	561 million
Singapore	438 million
Canada	237 million
W. Germany	187 million
Malaysia	146 million
Brazil	138 million

Source: EIA/U.S. Govt. Import Data

They Pulled The Plug...

On IBM, WANG, DATA GENERAL, SPERRY, DIGITAL, BURROUGHS, NCR and many more!

Why would companies like:
Magnolia Hi-Fi, Seattle, WA
Brick Church, Orange, NJ
Sprintz Furniture Showrooms, Nashville, TN
American Appliance, Philadelphia, PA
MVP Sporting Goods, Boston, MA
Wehmueller Jewelers, St. Louis, MO
Industrial Photo, Silver Spring, MD
and several more pull the plug on the best known brands of computers?

Their hardware worked, but after spending as much as $500,000 and 10 years trying to develop software, or spending hundreds of thousands of dollars on someone else's software to control their business, they pulled the plug! ... and turned to **Tyler ... the Business Solution!**

They needed programs to control the buying and selling functions, their accounting, service departments, inventory, sales staff and much, much more ... and didn't have them.

It's simple to make money in the retail business ... buy right, sell smart with the least amount of expenses incurred! But it isn't if you don't have every aspect of your business under **control!** That's why these companies, plus hundreds of others, have turned to automating their business ... but came up short! ... the answer ... the ***Tyler Management Information System***. We have the largest diverse installed base in the retail industry, operating thousands of stores in the United States, Canada and Puerto Rico. Why? Because we have proven how to gain full control of your business. Stores **just like yours** have results with the ***Tyler Management Information System*** as

INCREASED SALES BY 4-20%
INCREASED GROSS PROFIT MARGINS 2-5%
REDUCTION OF INVENTORY LEVELS 15-25%
REDUCTION OF PAPER WORK AND MANUAL LABOR 20-50%

Plus hundreds of other benefits to control your business, increase your market share and keep those customers you have now, with you, not your competitor!

The ***Tyler Management Information System*** was designed by a retailer for a retailer. We operate and control businesses from one-store operations to large chains with hundreds of stores and sales volume over 250 million a year. **We have the right size system for you!**

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action, and also includes one-touch soak and extra rinse options. The LE2500 dryer moves a hefty 200 cubic feet of air per minute to dry clothes quickly and effectively . . .

Maytag reported an increase in sales for 1986, up to $1.72 billion from $1.66 billion in '85. But net income was down, the firm said, to $111.2 million from $124.9 million the year before. Contributing to the bottom line were a series of hits, including a second quarter pre-tax charge of $17.8 million relating to the Magic Chef merger, a $2 million loss from discontinued operations of Toastmaster, and what the company calls "an extraordinary loss" of $5.7 million from the early extinguishment of a debt . . .

Fedders is kicking its pre-season off by giving away U.S. savings bonds. Any consumer who buys a qualifying 1987 Fedders World Class room air conditioner during April will receive a $50, $75 or $100 bond from the manufacturer, depending on the size of the model. Ten of the 34 World Class models are involved in the program, all with an EER of 9.0 or higher. The incentive is the first leg in the firm's "Reach for the Stars" promotion for the '87 lineup . . .

There's nothing like good press to help business, and majaps got a lot of it last year. According to AHAM, which tracks the number of articles written in consumer magazines and the number of calls it receives from editors of such publications, 1986 saw an increase in appliance articles of 116 percent, constituting 134 magazine pieces total. Similarly, the trade group received 94 inquiries from editors, for an increase of 71 percent over '85. Send your thank you's to Virginia Habeeb, whom AHAM holds responsible for the upswing. Habeeb is an editorial consultant in New York who works with the group to develop broadcast and print media contacts and scout new appliance story angles . . .

AHAM says consumer preference has shifted dramatically toward higher-efficiency air conditioners. The trade group notes that room air conditioners with EERs of 8.5 and over captured the largest share of total sales in 1985, with 39.2 percent (see chart). By comparison, in 1974 units with EERs under 6.5 captured the bulk of sales — 52.3 percent. In '85 those units grabbed only 18.4 percent, accounting for a 64.8 percent drop in share.

Other Maytag news: Maytag's Hardwick operation in Cleveland, Tennessee, which was consolidated into Magic Chef, will now be run from Magic Chef headquarters, also in Cleveland. J. Hoyle Rymer has been named by Maytag chairman Daniel Krumm to serve as president of the expanded Magic Chef/Hardwick entity. "Both firms manufacture similar products and this move has permitted us to consolidate many administrative functions at Magic Chef headquarters," Krumm said, adding that the Hardwick brand name and manufacturing operation will continue. Maytag also announced that Magic Chef's California production operations would be relocated to Cleveland, resulting in up to 250 additional manufacturing jobs in the area. The West Coast facility will be phased out in the second half. Finally, Maycor, the new corporate parts and service company, has just established its headquarters in Cleveland as well . . .

ROOM AIR CONDITIONER SHIPMENTS BY ENERGY EFFICIENCY (EER) CLASSIFICATION

Energy Efficiency Ratio	% of Domestic Unit Shipments			% Change in Share
	1974	1980	1985	1985 vs. 1974
Under 6.5	52.3	36.9	18.4	- 64.8
6.5-7.4	27.8	20.6	16.0	- 42.4
7.5-8.4	9.2	31.1	26.4	+ 187.0
8.5 and over	10.7	11.4	39.2	+ 266.4
TOTAL	100.0	100.0	100.0	

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